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Business accounting and rules for companies and self-employment differ – what follows does not cover all!

Company or self-employment?

Company incorporation can be attractive; it is less clear cut with extended IR35 restrictions, increased rates of tax on dividends and higher CT rates. There can be advantages in limited liability and splitting shareholdings to distribute ownership and income, tax effectively. Profits under £50,000 are taxable at 19%. The marginal rate of tax between £50,000 and £250,000 is 26.5%. The main rate, on profits over £250,000 is 25%.

Dividend nil rate band

This is **£500 for 24/25** (£1,000 23/24). Basic tax rate tax on dividends above the nil rate band is **8.75%**, higher rate **33.75%** and additional tax rate **39.35%**.

Company name with Limited to appear on all business documents. Required for letters, invoices, website and e-mails and all formal documents: Registered Number, Registered Office address necessary and country of registration, directors all or none. The company operates as a separate legal entity and must have a separate bank account in full company name.

Registering for VAT and filing digitally

If you have VAT turnover above **£90,000** in any 12 months from 1 April 2024 (£85,000), you must register for VAT and file your VAT returns digitally. If your turnover is below the limit, and are VAT registered, digital filing is compulsory. Self-employed businesses and lets over £50K will file digitally for income tax from 1 April 2026. From 1 April 2027 self-employed and rentals with income over £30,000 will have to operate MTD. Written exemptions can be requested by older/ non-digitally able.

Sales invoices (accounting packages Xero, QuickBooks, Excel and Absolute Accounting software will do all of this for you)

- Sequentially number. Start at a random point if you are shy about calling an invoice No 1.
- Show VAT number and VAT date (if VAT registered), as well as company information required above.
- Charge VAT on **all** services supplied in the UK (if VAT registered), travel, post, train fares, accommodation, and show VAT rate 20%.
- Take advice on sales outside the UK, if VAT registered.
- Record invoices in sequence and have a system for checking that each invoice is paid promptly.

Purchases expenses

- I have spread sheets available for different circumstances (VAT registered/not VAT registered and Company/Self-employed) or set up Xero. Put the minimum of expense to sundries, add columns to the spreadsheet, if necessary, but not during the financial year.
- Company vans and Electric cars and vans are very tax effective for companies. Regular cars are not tax effective.
- Companies should never pay any fuel (electricity) isn't 'fuel') bills for private mileage, only claim proven business travel expense.
- Business mileage rates: **45p** for the first 10,000 miles then 25p, **9p** from 1 March 2024 (8p) per mile for a non-company electric car.
- One mobile phone contract with the company, per employee is fully tax deductible.
- Annual staff parties and employee benefits see Tax rates and allowances summary - bottom of page 2.

VAT register and don't delay, if turnover (total sales) is above **£90,000** from 1 April 2024 (£85,000) in any cumulative 12 months.

- Subtotal sales and purchase sheets quarterly or monthly, you must check whether you need to register and file digitally.
- Returns and payments should be e-filed promptly, direct debit extends the payment deadline by one week.
- Don't reclaim VAT on entertaining, private expense and cars.
- Only claim VAT when you have a valid VAT invoice addressed to the business. A valid VAT invoice has: VAT rate and amount, VAT number, name and address of supplier. Make sure the invoice/payment date puts the VAT in the right quarter.
- Make sure your sales invoices are correct – you are liable if you undercharge VAT on sales.
- Make sure one VAT quarter ends on the same date as your year-end (ask HMRC to change the quarterly VAT Return dates if it doesn't).

Wages and Salaries and pensions

If wages are paid, you need to register a PAYE system. This should maintain your NI contribution record (35 contributing years needed). You must give accurate information in advance for RTI. The company may be eligible for Employment allowance £5,000. All PAYE dues must be paid on time to avoid penalties. Owner managed companies paying below the limits do not need to auto enrol but must respond and comply with regulator's letters. Company pension contributions paid for owner managers by the company before the company financial year-end are very tax effective.

Corporation Tax compliance

The tax return and full accounts must be filed and paid 9 months after the company year end. HMRC no longer sends notices to pay. Open a Government Gateway Account 'GGA' to see notices.

HMRC and Companies House fines and penalties

Fines and penalties, for errors and non-compliance with filing and payment deadlines are increasing and high, and in many cases over 15% of tax due. Keep good records and stay up to date!

March 2024